

# **Legislative Audit Division**

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**State of Montana**



**Report to the Legislature**

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**December 2004**

## **Financial-Compliance Audit**

**For the Two Fiscal Years Ended June 30, 2004**

## **Montana Board of Housing**

**Department of Commerce**

**A Component Unit of the State of Montana**

**This is our financial-compliance audit report on the Board of Housing (Board) for the two fiscal years ended June 30, 2004. The objectives of our financial-compliance audit included determining if the Board's financial statements presented fairly its financial position and results of operations at and for the period ending June 30, 2004, with comparative combined totals at and for the period ending June 30, 2003.**

**We tested the Board's compliance with state and federal laws that have a direct and material impact on the financial statements. We also completed additional compliance testing with applicable laws and regulations as part of this financial-compliance audit.**

**The audit report contains no recommendations to the Board.**

**Direct comments/inquiries to:  
Legislative Audit Division  
Room 160, State Capitol  
PO Box 201705  
Helena MT 59620-1705**

**04-07**

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## **FINANCIAL-COMPLIANCE AUDITS**

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2005, will be issued by March 31, 2006. The Single Audit Report for the two fiscal years ended June 30, 2003, was issued on March 23, 2004. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator  
Office of Budget and Program Planning  
State Capitol  
Helena MT 59620  
Phone (406) 444-3616

Legislative Audit Division  
Room 160, State Capitol  
PO Box 201705  
Helena MT 59620-1705

### **MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE**

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Senator Mike Cooney  
Senator Jim Elliott, Vice Chair  
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Senator Corey Stapleton

Representative Dee Brown  
Representative Tim Callahan  
Representative Hal Jacobson  
Representative John Musgrove  
Representative Jeff Pattison, Chair  
Representative Rick Ripley

# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

December 2004

The Legislative Audit Committee  
of the Montana State Legislature:

This is our report on the financial-compliance audit of the Montana Board of Housing, a component unit of the state of Montana, for the two fiscal years ended June 30, 2004, and 2003. The objectives of our financial-compliance audit included determining if the Board's financial statements presented fairly its financial position and results of operations at and for the periods ending June 30, 2004, and 2003. We also tested the Board's compliance with applicable laws and regulations.

The Board of Housing was created by the Montana Housing Act of 1975. The Board is attached to the Housing Division within the Department of Commerce. Montana Board of Housing's purpose is to provide decent, safe, sanitary, and affordable housing for lower income individuals and families in the state of Montana. The Board accomplishes this purpose by issuing tax-exempt bonds to provide funds to purchase home mortgages, administering federal housing programs, and working in partnership with other housing providers throughout Montana.

On page A-1, you will find the Independent Auditor's Report followed by Board Management's Discussion and Analysis, the financial statements and accompanying notes, and the combining statements. We issued an unqualified opinion on those financial statements which means the reader can rely on the presented information.

In addition to the annual financial audit and biennial compliance audit of the Board, our office performs special engagements for the Board of Housing throughout the year. These include agreed-upon procedures for the Board and its underwriter to evaluate revenue, expense, and fund equity information when selling bonds, and reviews of preliminary and official statements to allow inclusion of our Independent Auditor's Report with the financial statements when the Board issues bonds. We have also performed agreed-upon procedures at selected Board of Housing loan servicers to assist the Board in evaluating the mortgage receivable information provided by the Board's loan servicers and to determine compliance with contract requirements.

This report does not contain any recommendations to the Board. The prior financial-compliance audit report, issued for fiscal year 2001-02, contained four recommendations to the Board. We determined the Board has implemented all recommendations contained in the prior audit report. The Board's response to our audit is on B-1.

We thank the Board of Housing, its staff, and the Department of Commerce staff for their cooperation and assistance during the audit.

Respectfully submitted,

*(Signature on File)*

Scott A. Seacat  
Legislative Auditor

## Appointed and Administrative Officials

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### Montana Board of Housing

		Term <u>Expires</u>
Bob Thomas, Chair	Stevensville	2007
Robert Savage, Vice Chair	Sidney	2005
William Oser, Secretary	Billings	2005
Judy Glendenning	Helena	2007
Susan Moyer	Kalispell	2007
Steve Redinger	Billings	2005
Thomas Welch	Dillon	2005

### Administrative Officials:

#### Department of Commerce

Mark Simonich, Director

#### Board of Housing

Bruce Brensdal, Executive Director

Scott Hoversland, Accounting and Finance Manager

Mat Rude, Multifamily Program Manager

Bob Morgan, Single Family Program Manager

For further information on the Montana Board of Housing contact Bruce Brensdal, Executive Director, at:

PO Box 200528  
Helena MT 59620-0528  
(406) 841-2840  
e-mail: [bbrensdal@state.mt.us](mailto:bbrensdal@state.mt.us)

Members of the audit staff involved in this audit were Alexa O'Dell, GERALYN Hoffman, Sonia Powell, and Vickie Rauser.

# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

## **INDEPENDENT AUDITOR'S REPORT**

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Statement of Net Assets of the Montana Board of Housing, a component unit of the state of Montana, as of June 30, 2004, and 2003, and the related Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows for the fiscal years then ended. The information contained in these financial statements is the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Board of Housing as of June 30, 2004, and 2003, and the results of its operations and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Combining Statement of Net Assets as of June 30, 2004, and the related Combining Statement of Revenues, Expenses, and Changes in Net Assets and Combining Statement of Cash Flows for the fiscal year then ended, are presented for purposes of additional analysis and are not a required part of the financial statements of the Montana Board of Housing. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,  
*(Signature on File)*

James Gillett, CPA  
Deputy Legislative Auditor

October 28, 2004

**The Montana Board of Housing  
Management's Discussion and Analysis,  
Financial Statements and Notes**

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# MONTANA

**Department of Commerce**

**MONTANA BOARD OF HOUSING**  
P.O. Box 200528 ★ Helena, Montana 59620-0528  
Phone: 406-841-2840 ★ Fax: 406-841-2841 ★ TDD: 406-841-2702  
<http://housing.state.mt.us>

## **Management's Discussion and Analysis** Year Ended June 30, 2004

This section of the Montana Board of Housing's (MBOH's) annual financial report presents our discussion and analysis of the agency's financial performance during the fiscal year ended June 30, 2004. Please read this section in conjunction with the financial statements and accompanying notes.

### **Financial Highlights**

- 1,701 single-family mortgages were originated for \$153 million.
- 2,005 single-family mortgages prepaid for \$119 million.
- No multi-family mortgages were originated.
- 1 multi family mortgage paid off for \$1.5 million.
- Total new debt issued was \$161.8 million.
- Total debt retired was \$158 million.
- Total outstanding debt increased from \$625 million to \$632 million.
- \$2,220,623 of Low Income Tax Credits were allocated providing approximately \$17 million of equity to produce or preserve 252 units of affordable rental housing.
- 15 new Reverse Annuity Mortgage (RAM) Loans were originated bringing the total active RAM loans to 53. Since its inception the RAM program has assisted 96 elderly households.

### **Overview of the Financial Statements**

The MBOH is a self-supporting entity using no general fund appropriations to operate. The MBOH is classified as an enterprise fund, that is, a fund that is financed and operated in a manner similar to a private business enterprise.

The Net Assets – Restricted for Bondholders represent bond program funds that are pledged as collateral for the bondholders and are restricted by federal tax law to costs directly related to carrying out qualifying housing programs, qualifying mortgages or paying off bonds. These funds are therefore not available for use for other non-housing activities.

The financial statements are designed to provide the stakeholders of the MBOH, our citizens, taxpayers, legislatures, customers, clients, investors and creditors, with an overview of the finances of the organization and to demonstrate our accountability for the resources with which we are entrusted.

**Financial Analysis**  
Change in Net Assets and Operating Income  
Years ended June 30, 2004 and 2003

		<u>2004</u>		<u>2003</u>	<u>% inc (dec)</u>
<b>Assets:</b>					
Current Assets	(1)	\$ 68,446,646	\$	56,233,674	21.72%
Noncurrent Assets		\$ 699,241,149	\$	703,251,777	-0.57%
Total Assets		\$ 767,687,795	\$	759,485,451	1.08%
<b>Liabilities:</b>					
Current Liabilities		\$ 11,936,674	\$	14,328,690	-16.69%
Noncurrent Liabilities		\$ 624,197,098	\$	615,626,922	1.39%
Total Liabilities		\$ 636,133,772	\$	629,955,612	0.98%
<b>Net Assets:</b>					
Invested in Capital Assets		\$ 75,617	\$	113,761	-33.53%
Restricted		\$ 131,478,406	\$	129,416,078	1.59%
Total Net Assets		\$ 131,554,023	\$	129,529,839	1.56%
<b>Operating Revenue:</b>					
Interest on Loans	(2)	\$ 36,103,048	\$	40,852,401	-11.63%
Earnings from Investments	(3)	\$ 6,184,388	\$	11,955,945	-48.27%
Fees and Charges		\$ 732,101	\$	524,672	39.53%
Total Operating Revenue		\$ 43,019,537	\$	53,333,018	-19.34%
<b>Operating Expenses:</b>					
Bond Expenses	(4)	\$ 36,897,582	\$	41,205,955	-10.46%
Servicing Fees		\$ 2,157,072	\$	2,301,388	-6.27%
General and Administrative		\$ 1,940,699	\$	1,852,576	4.76%
Total Expenses		\$ 40,995,353	\$	45,359,919	-9.62%
Operating Income		\$ 2,024,184	\$	7,973,099	-74.61%

- (1) Current assets increased by \$12,212,972. This is due to \$13,275,000 of funds being held to acquire new mortgages in Series 2003B-1. These funds resulted from a refunding of a prior bond series and the funds were held as non current in FY 2003.
- (2) Interest on loans decreased \$4,749,353. This is due to the declining interest rates over the past two fiscal years and high numbers of prepayments. The higher rate loans are paying off and new loans are being originated at very low interest rates.
- (3) Earning on investments decreased \$5,771,557. \$4,530,955 of this decrease is due to the change in the unrealized gain/loss from an unrealized gain of \$2,230,748 in FY 2003 to an unrealized loss of \$2,300,207 in FY 2004. The remainder of the decrease is due to the low interest rate environment.
- (4) Bond expenses decreased \$4,308,373. With the high amount of prepayments on loans we have been able to pay off a significant amount of existing bonds. With the low interest rate environment the new bonds have also been issued at a lower rate.



**MONTANA BOARD OF HOUSING**  
**A COMPONENT UNIT OF THE STATE OF MONTANA**  
**STATEMENT OF NET ASSETS**  
**AS OF JUNE 30, 2004 AND 2003**

<b>ASSETS</b>	<b>FY 2004</b>	<b>FY 2003</b>
<b>Current Assets</b>		
Cash and Cash Equivalents (Note 2)	\$ 7,264,131	\$ 7,756,487
Investments (Note 4)	46,340,278	32,975,198
Mortgage Loans Receivable (Note 5)	10,584,633	10,296,404
Interest Receivable	4,075,113	5,028,326
Due from Primary Government	1,073	2,634
Prepaid Expense	181,418	174,625
Total Current Assets	<u>\$ 68,446,646</u>	<u>\$ 56,233,674</u>
<b>Noncurrent Assets</b>		
Investments (Note 4)	\$ 94,134,509	\$ 114,774,824
Mortgage Loans Receivable (Note 5)	598,746,710	582,059,142
Deferred Bond Issuance Costs, Net	6,284,313	6,304,050
Capital Assets, Net (Note 7)	75,617	113,761
Total Noncurrent Assets	<u>\$ 699,241,149</u>	<u>\$ 703,251,777</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 767,687,795</u></u>	<u><u>\$ 759,485,451</u></u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 335,522	\$ 476,111
Due to Primary Government	26,777	27,733
Due to Other Component Units	4,873	3,648
Property Held in Trust	683,005	709,505
Accrued Interest - Bonds Payable	3,003,280	3,422,051
Bonds Payable, Net (Note 8)	7,781,560	9,168,966
Arbitrage Rebate Payable to U.S. Treasury Department (Note 12)	47,955	463,413
Accrued Compensated Absences	53,702	57,263
Total Current Liabilities	<u>\$ 11,936,674</u>	<u>\$ 14,328,690</u>
<b>Noncurrent Liabilities</b>		
Bonds Payable, Net (Note 8)	\$ 624,673,559	\$ 616,381,498
Deferred Refunding Costs	(1,500,335)	(1,461,389)
Arbitrage Rebate Payable to U.S. Treasury Department (Note 12)	975,054	673,315
Accrued Compensated Absences	48,820	33,498
Total Noncurrent Liabilities	<u>\$ 624,197,098</u>	<u>\$ 615,626,922</u>
<b>TOTAL LIABILITIES</b>	<u><u>\$ 636,133,772</u></u>	<u><u>\$ 629,955,612</u></u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net	\$ 75,617	\$ 113,761
Restricted for Bondholders (Note 1 & 10):		
Unrealized (losses) gains on investments	1,574,795	3,805,542
Single Family Programs	79,865,024	91,857,673
Various Recycled Mortgage Programs	37,136,710	21,898,843
Multifamily Programs	8,415,832	7,985,246
Multifamily Project Commitments	235,011	244,644
Reverse Annuity Mortgage Program	1,830,631	1,500,125
Restricted for Affordable Revolving Loan Program	2,420,403	1,759,005
Revolving Loan Program Commitments	-	365,000
<b>TOTAL NET ASSETS</b>	<u><u>\$ 131,554,023</u></u>	<u><u>\$ 129,529,839</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA BOARD OF HOUSING  
A COMPONENT UNIT OF THE STATE OF MONTANA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	FY 2004	FY 2003
<b>OPERATING REVENUES</b>		
Interest Income - Mortgage Loans	\$ 36,103,048	\$ 40,852,401
Interest Income - Investments	8,415,136	9,655,738
Fee Income	214,712	229,872
Federal Financial Assistance	251,451	242,171
Net Increase (Decrease) in Fair Value of Investments	(2,230,748)	2,300,207
Grants and Contributions	265,625	42,733
Other Income	313	9,896
Total Operating Revenues	<u>\$ 43,019,537</u>	<u>\$ 53,333,018</u>
<b>OPERATING EXPENSES</b>		
Interest on Bonds	\$ 34,848,147	\$ 39,405,348
Servicer Fees	2,157,072	2,301,388
Contracted Services	616,917	551,173
Amortization of Bond Issuance Costs	508,279	462,583
General and Administrative	1,323,782	1,301,403
Arbitrage Rebate Expense	303,526	299,970
Loss on Redemption (Note 9)	1,237,630	1,038,054
Total Operating Expenses	<u>\$ 40,995,353</u>	<u>\$ 45,359,919</u>
Operating Income/Increase in Net Assets	2,024,184	7,973,099
Net Assets, Beginning of Year	<u>129,529,839</u>	<u>121,556,740</u>
Net Assets, End of Year	<u>\$ 131,554,023</u>	<u>\$ 129,529,839</u>

The accompanying notes to the financial statements are an integral part of this statement.

**MONTANA BOARD OF HOUSING**  
**A COMPONENT UNIT OF THE STATE OF MONTANA**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	FY 2004	FY 2003
<b>CASH FLOWS FROM OPERATING ACTIVITY</b>		
Receipts for Sales and Services	\$ 197,792	\$ 229,872
Collections on Loans and Interest on Loans	\$ 174,862,549	185,660,318
Cash payments for Loans	\$ (154,907,692)	(85,189,678)
Federal Financial Assistance Receipts	\$ 251,451	242,171
Receipts for Grants and Contributions	\$ 260,225	42,733
Payments to Suppliers for Goods and Services	\$ (3,387,296)	(3,374,901)
Payments to Employees	\$ (805,625)	(756,678)
Other Operating Revenues	\$ 8,613	9,896
Net Cash Provided (Used) by Operating Activities	<u>\$ 16,480,017</u>	<u>\$ 96,863,733</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Payment of Principal and Interest on Bonds and Notes	\$ (193,191,105)	\$ (249,731,928)
Proceeds from Issuance of Bonds and Notes	\$ 161,800,000	144,015,500
Payment of Bond Issuance Costs	\$ (1,765,118)	(1,200,881)
Premium Paid on Refunding Bonds	\$ 3,028,840	(399,700)
Good Faith Deposit being Held	\$ (27,000)	707,000
Net Cash Provided (Used) by Noncapital Financing Activities	<u>\$ (30,154,383)</u>	<u>\$ (106,610,009)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Investments	\$ (1,291,190,564)	\$ (649,003,025)
Proceeds from Sales or Maturities of Investments	\$ 1,296,235,053	652,541,427
Interest on Investments	\$ 8,554,765	9,692,205
Arbitrage Rebate Tax (Note 12)	\$ (417,244)	(666,190)
Net Cash Provided (Used) by Investing Activities	<u>\$ 13,182,010</u>	<u>\$ 12,564,417</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (492,356)	\$ 2,818,141
Cash and Cash Equivalents, beginning bal.	\$ 7,756,487	\$ 4,938,346
Cash and Cash Equivalents, ending bal.	\$ 7,264,131	\$ 7,756,487

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA BOARD OF HOUSING  
A COMPONENT UNIT OF THE STATE OF MONTANA  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	<u>FY 2004</u>	<u>FY 2003</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income	\$ 2,024,184	\$ 7,973,099
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:</b>		
Depreciation	38,142	40,123
Amortization	1,595,293	1,504,183
Interest Expense	34,998,763	39,401,802
Interest on Investments	(8,415,135)	(9,655,738)
Arbitrage Rebate Tax	303,526	299,970
(Incr) Decr in Fair Value of Investments	2,230,748	(2,300,207)
Change in Assets and Liabilities:		
Decr (Incr) in Mortgage Loans Receivable	(13,926,457)	59,611,933
Decr (Incr) in Other Assets	805,983	196,312
Incr (Decr) in Accounts Payable	(137,452)	(27,980)
Incr (Decr) in Deferred Reservation & Disc. Fees	(3,049,339)	(189,209)
Incr (Decr) in Compensated Absences Payable	11,761	9,445
Net Cash Provided (Used) by Operating Activities	<u>\$ 16,480,017</u>	<u>\$ 96,863,733</u>

The accompanying notes to the financial statements are an integral part of this statement.

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2004 and 2003**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization:**

The Montana Board of Housing (the Board) is a quasi-judicial board created in 1975, by the Legislative Assembly of the State of Montana to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income as determined in accordance with the Board policy in compliance with the Internal Revenue Code. The Board is authorized to issue negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed \$1,500,000,000 (\$975 million prior to October 1, 2003). The discount price of bonds sold, not the face amount of the bonds, counts against this statutory ceiling. Neither the faith and credit nor taxing power of the State of Montana may be pledged for payment of amounts so issued. The Board of Housing is attached to the Housing Division, Department of Commerce.

**Basis of Presentation:**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). During fiscal year 2002 the Board implemented GASB Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments", No. 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus" and No. 38, "Certain Financial Statement Note Disclosures". In order to comply with the requirements of the statements noted, the Board's financial statements include a classified statement of net assets, a statement of revenues, expenses, and changes in net assets that reports operating and nonoperating revenues and expenses, and the statement of cash flows. In addition, the "Management's Discussion and Analysis" precedes the financial statements as required supplementary information. Revenues in the proprietary funds are recognized when earned and expenses are recognized when incurred. The financial activities of the Board are recorded in funds established under various bond resolutions and the Montana Code Annotated (MCA). In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of net assets and revenues and expenses for the period. The financial statements of the Board are presented on a combined basis. The combining financial information can be found in other supplemental information.

**Reporting Entity:**

In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Board of Housing as a reporting entity. The financial statements of the Board of Housing are presented as a component unit in the State of Montana's Basic Financial Statements. The enterprise fund of the Board of Housing is part of but does not comprise the entire proprietary fund type of the State of Montana. The State of Montana directs and supervises budgeting, record keeping, reporting, and related administrative functions of the Board.

**Fund Accounting:**

To ensure observance of limitations and restrictions placed on the use of resources by the trust indentures, the Board of Housing accounts are organized in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose as described in the trust indentures. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, net assets, revenues, and expenses. The funds of the Board are classified as enterprise funds, that is, a fund that is financed and operated in a manner similar to private business enterprises, where the intent of the Board is that the expenses of meeting its organizational purpose be financed or recovered primarily through user charges and investment earnings, and the periodic determination of revenue earned and expenses incurred is appropriate for capital maintenance, public policy, management control, accountability, and other purposes. Net Assets – Restricted for Bondholders represent bond program funds that are required to be used for program purposes as prescribed by individual bond indentures. The following describes the restrictions on the Net Assets: The individual bond indentures establish certain funds and accounts as special trust funds to hold the individual indenture funds. Because of the nature of the Board's bonds, these funds and accounts are pledged as collateral for the bonds under the individual program indentures. The individual indentures also set certain reserve requirements on cash and investments. These reserves are disclosed in Note 4 to the financial statements. Also, as disclosed in Note 5 to the financial statements, the mortgage loans receivable are pledged as security for

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**June 30, 2004 and 2003**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**Fund Accounting – continued**

holders of the bonds. Certain indentures also require asset-liability coverage ratios be met as well as cash flow certificates be furnished for any significant change anticipated in the financial structure of an indenture.

Restricted Net Assets also include funds reserved by participants and funds committed to specific projects under various programs established by the Board.

**Revenue and Expense Recognition:**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The Board records all revenues and expenses related to mortgages, investments, and bonds as operating revenues and expenses.

**Fund Structure:**

The Board's program funds and other funds have been presented on a combined basis, as the Board is considered a single enterprise fund for financial reporting purposes. A description of the funds established by the Board follows:

**Single Family Mortgage Program Funds** - These funds, established under two separate trust indentures adopted on various dates, are established for accounting for the proceeds from the sale of Single Family Mortgage Bonds and the debt service requirements of the bond indebtedness. Activities of these funds are, in general, restricted to the purchase of eligible single family mortgage loans. The mortgage loans must be insured by the Federal Housing Administration or guaranteed by Veterans Administration or Rural Development.

The accompanying combining financial statements include the activity of both Single Family Mortgage Program Funds. The assets of each individual Single Family Mortgage Program Fund are restricted by the Fund's respective trust indenture; therefore, the total does not indicate that the Single Family Mortgage Program Funds' assets are available in any manner other than provided for in the individual trust indentures. The Board has reserved funds for specific loan programs. These loans will be originated from funds available in the Single Family I and II Indentures.

**Multifamily Mortgage Program Funds** - These funds, established under a trust indenture adopted February 23, 1978, as amended and restated as of December 29, 1992, are established to account for the proceeds from the sale of Multifamily Mortgage Bonds, the debt service requirements of the bond indebtedness, and for construction and permanent mortgage loans on multifamily developments being financed from the bond proceeds. Mortgage loans originated prior to December 1992 must be insured by the Federal Housing Administration.

On November 10, 1998, the Board issued \$1,625,000 in Multifamily General Obligation Bonds. These bonds are payable out of any of the Board's moneys, assets or revenue. These funds, established under a trust indenture adopted November 1, 1998, are established to account for the proceeds from the sale of Multifamily Mortgage General Obligation Bonds, the debt service requirements of the bond indebtedness, and for construction and permanent mortgage loans on multifamily developments being financed from the bond proceeds. The mortgage loans originated under this Indenture are not required to be insured by the Federal Housing Administration.

The Multifamily Program Fund on the combining financial statements, includes activity for both Indentures.

**Housing Trust Fund** - the Housing Trust Fund was established as a separate trust fund by a resolution of the Montana Board of Housing, adopted February 16, 1989. The Housing Trust Fund was created to finance in whole or in part future housing needs and the establishment of new programs as deemed necessary by the Board and any loans or projects that will provide housing for lower income persons and families with special housing needs. Current programs include, but are not limited to, the Reverse Annuity Mortgage Program (RAM) for senior Montana homeowners and the Cash Assistance Program – Disabled (CAP) to assist disabled individuals and families in the purchase of a single family home. The Housing Trust Fund also includes all activity from the Low Income Housing Tax Credit Program.

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**June 30, 2004 and 2003**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**Fund Structure - continued**

**Affordable Housing Revolving Loan Account** - Under MCA 90-6-133, a Revolving Loan Account was established. The affordable housing revolving loan account was established in the state special revenue fund in the state treasury. For purposes of financial reporting, the Board has reclassified this account as an enterprise fund as allowed in GASB Statement No. 34. Senate Bill 243 of the 2003 Legislature moved the Revolving Loan Account to the enterprise fund effective July 1, 2003. The money in the loan account is allocated to the board for the purposes of providing loans to eligible applicants. House Bill 57 of the 2001 Legislature authorized the transfer of \$500,000 from the Federal Housing and Urban Development Section 8 administrative fee reserve account to this account. In addition, House Bill 273 of the 2001 Legislature allocated \$3,415,928 of the Temporary Assistance to Needy Families (TANF) block grant to the Board to be used for purposes authorized by the block grant. Senate Bill 6 of the 2002 Special Session limited the transfer to \$700,000.

**Cash and Cash Equivalents:**

For the purposes of the combining statement of cash flows, cash and cash equivalents consist of cash held by the State of Montana Treasurer, cash and money market accounts held by trustees, and cash invested in the state's short term investment pool.

**Investments:**

Investment of the Board's monies is made in accordance with the Board's investment policy, effective April 13, 2000, (revised February 13, 2002 and April 19, 2004) which is in accordance with the trust indentures and the laws of the State of Montana.

Permitted investments are U.S. treasury obligations, U.S. agency obligations, debentures, or notes, certificates of deposits or time deposits, insured by the FDIC or fully insured by U.S. treasury or agency obligations which have a market value at least equal to the amount of such deposits, and investment contracts fully collateralized in an amount equal to 102% of the principal and interest of the agreement.

In no case shall an investment result in a reduction of ratings by Standard & Poor's Rating Services or Moody's Investor Services.

From 1988 to 1992 the Board invested in guaranteed investment contracts that had underlying collateral equal to 100% of the principal and interest of the agreements.

Investments, which are generally intended to be held to maturity, are reported at "fair value", as required by GASB 31.

**Mortgage Loans Receivable:**

Mortgage loans receivable are carried at their uncollected principal balances, adjusted for unamortized mortgage discounts and deferred loan fees, less an allowance for loan losses. Mortgage discounts and loan fees earned after 1988 are amortized using the interest method over the life of the mortgage loans and are accreted to interest income on mortgages. Mortgage discounts for all other program funds are amortized using the straight-line method over the remaining life of the mortgage loans and accreted to interest income.

The Board purchases mortgage loans secured by residences located throughout the State of Montana. Loans must be insured by the FHA (Federal Housing Administration) or guaranteed by the VA (Veterans Administration) or RD (Rural Development). Guidelines to minimize credit risk are established by FHA, VA, RD & Board policies.

Interest receivable is accrued on the amount of outstanding mortgage loan principal only if deemed collectible. Accrual on non-performing loans ceases at six months.

Estimated losses are determined based on management's judgement, giving effect to numerous factors including, but not necessarily limited to, general economic conditions, loan portfolio composition, prior loss experience and independent appraisals. The reserve for anticipated loan losses represents amounts which are not expected to be fully reimbursed by certain guarantors.

The Board incurs mortgage loan service fees with participating loan servicers based on outstanding monthly

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2004 and 2003

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Mortgage Loans Receivable – continued**

mortgage loan principal balances. The service fees are paid only when the mortgagee's full monthly payment is collected.

**Capital Assets:**

Capital assets are recorded at cost and depreciation is computed using the straight-line method over estimated useful lives of 5 to 10 years. The majority of capital assets consist of computers and software. The capitalization threshold for recording capital assets is \$5,000. Purchases under this threshold are recorded as expenses in the current period.

**Bonds Payable:**

Bonds payable is adjusted for amortized bond premiums and discounts. Bond premiums and discounts are amortized or accreted to interest expenses using the interest method, as an adjustment to yield, over the life of the bonds to which they relate or are expensed upon early redemption of the bonds.

Bond issuance costs, including underwriter discounts, are amortized using the bonds outstanding method over the life of the bonds or are expensed upon redemption of the bonds.

**Compensated Absences:**

The Board's employees earn vacation leave ranging from 15 to 24 days per year depending on the employee's years of service. Vacation leave may be accumulated to a total not to exceed two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

**NOTE 2. CASH AND CASH EQUIVALENTS**

The Board's cash and cash equivalents are categorized below to give an indication of the level of risk assumed by the Board. Category 1 includes investments which are insured, registered, or held by the Board or its agent in the Board's name. Category 2 includes uninsured and unregistered investments that are held by the counter party's trust department or agent in the Board's name. Category 3 includes uninsured and unregistered investments that are held by the counter party, or by its trust department or agent but not in the Board's name. All cash held by trustees and cash balances maintained by the State of Montana Treasury and held in the State's Short Term Investment Pool (STIP) were covered by federal depository insurance or collateralized by securities held by third parties in the Board's name. At June 30, 2004 and 2003, the carrying amounts of the Board's cash and cash equivalents equaled the bank balances.

	Category			Totals	
	1	2	3	2004	2003
Program Funds*	\$ 7,057,724	\$ -	\$ -	\$ 7,057,724	\$ 7,598,440
Deposited with State Treasury	206,407	-	-	206,407	158,047
	<u>\$ 7,264,131</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,264,131</u>	<u>\$ 7,756,487</u>

\*Cash deposits are held at the trustee bank. Based on the opinion of the Board's bond counsel, these funds are insured by the FDIC on a pass-through basis to the owners of mortgage bonds. Thus, each individual bondholder is entitled to \$100,000 of insurance coverage.

The units held in the State's Short Term Investment Pool (STIP) are valued at \$1 per unit. Although STIP is not registered with the Securities and Exchange Commission (SEC) as an investment company, the Montana Board of Investments (BOI) has a policy that STIP will, and does, operate in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. In meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair market value to report net assets to compute unit values. The STIP portfolio may include asset-backed securities, commercial paper, corporate and government securities, repurchase agreements, and variable rate (floating rate) instruments.



**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**June 30, 2004 and 2003**

**NOTE 3. SECURITIES LENDING**

The Board of Housing invests in the State's Short-Term Investment Pool. As part of the pool administered by the Board of Investments (BOI), the Board participates in securities lending transactions. Under GASB 28, the following disclosures are required:

Under the provisions of state statutes, the BOI has, via a Securities Lending Authorization Agreement, authorized a custodial bank, State Street Bank and Trust, to lend the BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, BOI receives a fee and the custodial bank must initially receive collateral equal to 102% of the fair value of the loaned securities and maintain collateral equal to not less than 100% of the fair value of the loaned security. BOI retains all rights and risks of ownership during the loan period.

During fiscal years 2004 and 2003, State Street lent, on behalf of BOI, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

BOI did not impose any restrictions during fiscal years 2004 and 2003 on the amount of loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2004 and 2003. More over, there were no losses during fiscal years 2004 and 2003 resulting from a default of the borrowers or State Street.

During fiscal years 2004 and 2003, BOI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and BOI's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which BOI could not determine. On June 30, 2004 and June 30, 2003, BOI had no credit risk exposure to borrowers.

On June 30, 2004 and June 30, 2003, there were no securities on loan.

**NOTE 4. INVESTMENTS**

The Board's investments are categorized to give an indication of the level of risk assumed by the Board. Category 2 includes uninsured and unregistered investments that are held by the counter party's trust department or agent in the Board's name. The Board's investments at June 30, 2004 and 2003 consisted of Category 2 investments:

	2004		2003	
	Reported Amount	Fair Value	Reported Amount	Fair Value
U.S. Treasury	\$ 6,683,906	\$ 6,683,790	\$ 14,972,133	\$ 15,390,181
U.S. Agency	50,996,295	50,977,126	41,681,486	41,692,200
Repurchase Agreements and Investment Contracts – Collateralized	82,654,586	82,654,586	90,956,403	90,956,403
Total	<u>\$ 140,334,787</u>	<u>\$ 140,315,502</u>	<u>\$ 147,610,022</u>	<u>\$ 148,038,784</u>

In addition, investments in the Multi-Family program include a property being held as an investment that was returned to the Board via a deed in-lieu of foreclosure. It is currently being reported at its fair market value estimate of \$140,000. The fair value of the property is based on a market analysis of the property. Consideration was given to the income potential of the property as well as the economy and recent sales of similar property.

All repurchase agreements and investment contracts were fully collateralized with securities and cash held by the provider's agent and confirmed by the trustee as required by the bond indentures. Securities underlying the repurchase agreements have a market value of at least 102% of the cost of repurchase agreement. Securities underlying the investment contracts have a market value of at least 100% of the cost of the investment contract plus accrued interest.

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2004 and 2003

**NOTE 4. INVESTMENTS-Continued**

Under GASB 31, certain investments are to be reported at fair value. The Board values all of its investments that have a maturity date of over one year at fair value. Those investments that have a maturity date of less than one year are valued at amortized cost. The fair values were based on market prices provided by the Board's trustee.

Portions of cash and investments, valued at amortized cost, are restricted to uses specified by applicable bond indentures. Amounts are restricted as follows:

	2004		2003	
	Single Family Mortgage Program Funds	Multifamily Mortgage Program Funds	Single Family Mortgage Program Funds	Multifamily Mortgage Program Funds
Debt Service Reserve Fund	\$ 36,665,727	\$ 1,364,063	\$ 39,042,375	\$ 1,368,067
Mortgage Reserve Fund	3,974,256	169,454	3,972,398	176,456
Total	<u>\$ 40,639,983</u>	<u>\$ 1,533,517</u>	<u>\$ 43,014,773</u>	<u>\$ 1,544,523</u>

As of June 30, 2004 original bond proceeds of \$25,777,699 were still on deposit in the 2003A, 2003B, 2003C, and 2004A program acquisition funds to be used for the purchase of Single Family Mortgage loans. The proceeds of \$25,777,699 included \$13,691,234 in the 2003B bond issue that closed on August 14, 2003, and \$10,063,668 in the 2004A bond issue that closed on March 11, 2004.

As of June 30, 2004 there was \$37,767,062 in Single Family reservations outstanding in the 2004A and 2004B bond issues. The 2004B bond issue closed on July 8, 2004.

**NOTE 5. MORTGAGE LOANS RECEIVABLE**

The mortgage loans receivable are pledged in accordance with individual program indentures as security for holders of the bonds. Mortgage loans receivable consist of the following:

	<u>2004</u>	<u>2003</u>
Mortgage loan receivables:		
Single Family Program	\$591,339,132	\$576,062,023
Multifamily Program	17,499,128	19,571,681
Housing Trust Program	1,162,110	1,044,158
Affordable Revolving Loan Account	<u>2,274,627</u>	<u>1,670,679</u>
	612,274,997	598,348,541
Net mortgage discounts and deferred reservation fees	(2,643,655)	(5,692,995)
Allowance for loan losses and real estate owned (note 6)	<u>(300,000)</u>	<u>(300,000)</u>
	<u>\$609,331,342</u>	<u>\$592,355,546</u>

**NOTE 6. ALLOWANCE FOR LOAN LOSSES AND REAL ESTATE OWNED**

The following summarizes activity in the allowance for loan losses and real estate owned:

Balance, June 30, 2002	\$300,000
Provision	61,294
Less: Net loans charged off	<u>(61,294)</u>
Balance, June 30, 2003	300,000
Provision	45,140
Less: Net loans charged off	<u>(45,140)</u>
Balance, June 30, 2004	<u>\$ 300,000</u>

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**June 30, 2004 and 2003**

**NOTE 6. ALLOWANCE FOR LOAN LOSSES AND REAL ESTATE OWNED - continued**

The allowance for loan losses includes \$200,000 at June 30, 2004 and 2003 for future estimated losses on real estate owned. Real estate owned property is property that is acquired through foreclosure or in satisfaction of loans and is initially recorded at the lower of the related loan balance, less any specific allowance for loss, or fair market value minus estimated costs to sell. The Board held two real estate owned properties as of June 30, 2004 and twelve as of June 30, 2003.

**NOTE 7. CAPITAL ASSETS**

Capital assets consist primarily of computer hardware, peripherals, software and other office equipment. Balances are as follows:

	<u>2004</u>	<u>2003*</u>
Furniture, fixtures, and equipment	\$87,917	\$87,917
Intangible Assets	44,169	74,821
Accumulated depreciation - equipment	<u>(56,469)</u>	<u>(48,977)</u>
Net capital assets	<u>\$ 75,617</u>	<u>\$ 113,761</u>

\* - FY 2003 amounts restated to remove \$324,264 of intangibles (at cost) from furniture, fixtures, and equipment, and list them at their amortized value. In addition, the amortization of intangibles in the amount of (\$249,443) was removed from the accumulated depreciation amount. This resulted in no change in the net capital asset amount.

Depreciation and amortization expense included in general and administrative expense was \$38,142 and \$40,124 for the years ended June 30, 2004 and 2003 respectively.

**NOTE 8. BONDS PAYABLE, NET**

Bonds payable, net of premium or discount, consists of the following:

	<u>Original Amount</u>	<u>2004</u>	<u>2003</u>
<b>Single Family I Mortgage Bonds:</b>			
1997			
Series A-1 and A-2 serial and term bonds 4.00% to 6.15% maturing in scheduled semi-annual installments to December 1, 2011, and on December 1, 2016, December 1, 2017, December 1, 2027, December 1, 2029 June 1, 2030 and December 1, 2037.	\$91,360,000	\$48,865,000	\$62,405,000
1999			
Series A-1 and A-2 serial and term bonds 4.35% to 5.75% maturing in scheduled semi-annual installments to December 1, 2012, and on December 1, 2014, December 1, 2020, June 1, 2030 and December 1, 2030 and December 1, 2031.	60,000,000	27,315,000	41,425,000
2000			
Series A-1 and A-2 serial and term bonds 4.15% to 6.45% maturing in scheduled semi-annual installments to December 1, 2012, and on June 1, 2016, June 1, 2019, December 1, 2020, June 1, 2029 December 1, 2031 and June 1, 2032.	87,695,000	28,650,000	52,075,000

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2004 and 2003

**NOTE 8. BONDS PAYABLE, NET - continued**

	<u>Original Amount</u>	<u>2004</u>	<u>2003</u>
<b>2000</b>			
Series B-1 and B-2 serial and term bonds 4.40% to 7.95% maturing in scheduled semi-annual installments to June 1, 2015, and on June 1, 2020, December 1, 2020, December 1, 2029, June 1, 2032 December 1, 2031.	71,940,000	47,360,000	61,145,000
<b>2001</b>			
Series A-1 and A-2 serial and term bonds 4.30% to 5.70% maturing in scheduled semi-annual installments to December 1, 2020, December 1, 2023 December 1, 2031, June 1, 2032 and December 1, 2032	\$71,000,000	\$47,745,000	\$60,710,000
<b>2002</b>			
Series A-1 and A-2 serial and term bonds 1.70% to 5.60% maturing in scheduled semi-annual installments to December 1, 2022, December 1, 2032 and December 1, 2033.	39,000,000	29,825,000	36,095,000
Series B-1 and B-2 serial and term bonds 2.30% to 5.55% maturing in scheduled semi-annual installments to December 1, 2023, December 1, 2026, December 1, 2032, June 1, 2033, December 1, 2033, and June 1, 2034.	52,190,000	<u>47,335,000</u>	<u>51,540,000</u>
<b>Total bonds outstanding Single Family I</b>		<u>\$277,095,000</u>	<u>\$365,395,000</u>
<b>Single Family II Mortgage Bonds:</b>			
<b>1983 -</b>			
Series C, serial, term and Capital Appreciation Bonds (CAB), 5.75% to 10.7% interest. Serial and term bonds, refunded April 15, 1994. CABS are reported at accreted value, and are scheduled for redemption, in part, in semi-annual installments commencing June 1, 2003 to June 1, 2010.	\$114,998,229	\$ -	\$ 817,099
<b>1985 -</b>			
Series A, serial, term, Postponed Revenue on Future Income Tax(PROFITS), all redeemed. CABS are reported at accreted value, and scheduled for redemption, in part, in semi-annual installments to December 1, 2004 and December 1, 2015 to June 1, 2016.	39,999,625	1,530,330	2,668,186
Series B, term bonds maturing in scheduled semi-annual installments to June 1, 2011.	74,996,862	930,000	1,080,000
<b>1994 -</b>			
Series A-1 and A-2, serial and term bonds, 3.1% to 6.1% interest, serial and term bonds maturing in scheduled semi-annual installments to December 1, 2002, and on June 1, 2015 and December 1, 2024.	25,725,000	3,610,000	5,040,000

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**June 30, 2004 and 2003**

**NOTE 8. BONDS PAYABLE, NET – continued**

	<u>Original Amount</u>	<u>2004</u>	<u>2003</u>
1995 -			
Series A-1 and A-2 serial and term bonds 4.75% to 6.55% maturing in scheduled semi-annual installments to December 1, 2009, and on December 1, 2012, December 1, 2017, December 1, 2025, and June 1, 2027.	33,580,000	-	3,840,000
1995 -			
Series B-1 and B-2 serial and term bonds 4.20% to 6.40% maturing in scheduled semi-annual installments to December 1, 2008, June 1, 2006 to December 1, 2008 and on December 1, 2014, December 1, 2021, December 1, 2027, and June 1, 2035.	88,000,000	33,950,000	64,680,000
1996-			
Series A-1 and A-2 serial and term bonds 4.70% to 6.375% maturing in scheduled semi-annual installments to December 1, 2009, and on December 1, 2012, June 1, 2016, June 1, 2024, and December 1, 2028.	65,000,000	17,165,000	28,175,000
1998-			
Series A-1 and A-2 serial and term bonds 4.00% to 5.45% maturing in scheduled semi-annual installments to December 1, 2012, and on December 1, 2016, June 1, 2019, June 1, 2027, December 1, 2030 and June 1, 2031.	51,780,000	28,535,000	35,635,000
Series B-1 and B-2 serial and term bonds 4.65% to 5.35% maturing in scheduled semi-annual installments to December 1, 2005 and on December 1, 2013, and on December 1, 2005, December 1, 2016, June 1, 2021, December 1, 2022, December 1, 2030 and , June 1, 2031.	65,000,000	38,725,000	48,700,000
2003-			
Series A-1 and A-2 serial and term bonds 1.20% to 4.90% maturing in scheduled semi-annual installments to December 1, 2024, June 1, 2033, December 1, 2033, June 1, 2034, June 1, 2035, June 1, 2042, and December 1, 2042.	52,520,000	52,185,000	52,520,000
Series B-1 and B-2 serial and term bonds 1.10% to 4.50% maturing in scheduled semi-annual installments to December 1, 2023, December 1, 2024, December 1, 2025, December 1, 2026, December 1, 2027, December 1, 2028, December 1, 2032, December 1, 2033, December 1, 2034, December 1, 2041, and December 1, 2042.	70,700,000	70,485,000	-
Series C serial and term bonds 1.45% to 5.05% maturing in scheduled semi-annual installments to June 1, 2023, December 1, 2023, December 1, 2028, and December 1, 2034.	40,500,000	40,360,000	-

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2004 and 2003

**NOTE 8. BONDS PAYABLE, NET - continued**

	<u>Original Amount</u>	<u>2004</u>	<u>2003</u>
2004-			
Series A serial and term bonds 1.40% to 5.00% maturing in scheduled semi-annual installments to December 1, 2023, June 1, 2024, June 1, 2029, December 1, 2029, and June 1, 2035.	50,600,000	<u>50,600,000</u>	-
Bonds outstanding Single Family II		338,075,330	243,155,285
Unamortized bond premiums		<u>3,454,170</u>	<u>575,946</u>
<b>Total bonds outstanding Single Family II</b>		<b><u>\$ 341,529,500</u></b>	<b><u>\$243,731,231</u></b>

**Single Family III Mortgage Bonds:**

1988 -

Series B-1 and B-2, serial and term senior bonds and subordinate bonds, 6.2% to 8.9% interest, maturing in scheduled semi-annual installments to October 1, 2008, and on October 1, 2014 and October 1, 2020.

Senior Bonds	\$24,000,000	\$ -	\$ 545,000
Subordinate Bonds	1,000,000	-	-

<b>Total Single Family Mortgage bonds payable, net</b>	<b><u>\$618,624,500</u></b>	<b><u>\$609,671,231</u></b>
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All single family mortgage bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption at various dates at prices ranging from 100% to 103%.

Single Family I and II mortgage bonds are general obligation bonds of the Board of Housing within the individual bond indenture. Single Family III mortgage senior bonds are special obligation bonds of the Board of Housing whereas subordinate bonds were general obligation bonds of the Board of Housing.

	<u>Original Amount</u>	<u>2004</u>	<u>2003</u>
<b>Multifamily Mortgage Bonds:</b>			
1978 -			
Series A, 6.125% interest, maturing in scheduled annual installments to August 1, 2019.	\$4,865,000	\$925,000	\$955,000
1992 -			
Series A, 2.95% to 6.55% interest, serial and term bonds, maturing in scheduled semi-annual installments to August 1, 2006, and on August 1, 2012, and August 1, 2023.	9,725,000	1,745,000	3,520,000
1996			
Series A, 4.10% to 6.15% interest, serial and term bonds, maturing in scheduled annual installments to August 1, 2011, and on August 1, 2016, and August 1, 2026.	890,000	780,000	800,000
1998			
Series A 3.5% to 4.70% interest, serial and term bonds, maturing in scheduled annual installments to August 1, 2014 and on August 1, 2029.	1,625,000	1,300,000	1,355,000

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2004 and 2003

**NOTE 8. BONDS PAYABLE, NET - continued**

	<u>Original Amount</u>	<u>2004</u>	<u>2003</u>
1999			
Series A 4.95% to 8.45% interest, term Bonds, maturing in scheduled semi annual installments to August 1, 2008, August 1, 2010, August 1, 2016, August 1, 2025, August 1, 2030, August 1, 2037, August 1, 2041 and August 1, 2039.	9,860,000	<u>9,125,000</u>	<u>9,295,000</u>
Total bonds outstanding		13,875,000	15,925,000
Unamortized bond premiums		<u>(44,381)</u>	<u>(45,767)</u>
<b>Total Multifamily Mortgage bonds payable, net</b>		<u><b>\$13,830,619</b></u>	<u><b>\$15,879,233</b></u>
 <b>Combined total bonds payable, net</b>		 <u><b>\$632,455,119</b></u>	 <u><b>\$625,550,464</b></u>

All multifamily bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption after various dates at prices ranging from 100% to 105%.

The 1998A Multifamily bonds are general obligations of the Board.

The following is a primary summary of bond principal and interest requirements as of June 30, 2004:

Year Ending	Single Family Mortgage Program Funds	Multifamily Mortgage Program Funds	Principal Totals	Interest Totals
2005	\$ 39,063,511	\$ 1,322,412	\$ 7,781,560	\$ 32,604,363
2006	41,002,686	1,324,953	10,066,274	32,261,365
2007	41,291,493	1,260,578	10,703,918	31,848,153
2008	41,451,222	1,194,354	11,255,328	31,390,248
2009	41,914,093	1,193,575	12,230,375	30,877,294
2010-14	210,172,043	5,562,590	70,899,863	144,834,770
2015-19	215,221,794	3,974,923	92,198,011	126,998,707
2020-24	211,569,351	3,593,873	117,775,000	97,388,224
2025-29	204,558,729	3,323,327	146,340,000	61,542,056
2030-34	137,097,792	2,705,426	116,760,000	23,043,217
2035-39	25,494,551	2,758,545	23,305,000	4,948,096
2040-44	9,466,948	1,179,863	9,730,000	916,810
Total	<u>\$ 1,218,304,213</u>	<u>\$ 29,394,419</u>	<u>\$ 629,045,329</u>	<u>\$ 618,653,303</u>

Cash paid for interest expenses during the years ending June 30, 2004 and 2003 was \$35,168,270 and \$38,786,637, respectively.

**Changes in Bonds Payable**

	7/1/2003 Balance	Increases	Decreases	6/30/2004 Balance
Single Family	\$ 609,671,231	\$ 165,076,718	\$ 156,123,449	\$ 618,624,500
Multi Family	15,879,233	-	2,048,614	13,830,619
Total	<u>\$ 625,550,464</u>	<u>\$ 165,076,718</u>	<u>\$ 158,172,063</u>	<u>\$ 632,455,119</u>

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**June 30, 2004 and 2003**

**NOTE 9. LOSS ON REDEMPTION**

During the years ended June 30, 2004 and 2003 the Board redeemed Single Family mortgage program bonds prior to scheduled maturity as follows:

	<u>2004</u>	<u>2003</u>
Single Family I		
December 1	\$53,140,000	\$17,665,000
June 1	<u>31,000,000</u>	<u>38,345,000</u>
	<u>84,140,000</u>	<u>56,010,000</u>
Single Family II		
October 1	16,965,000	-
November 1	-	950,000
December 1	12,716,087	25,396,567
June 1	<u>13,470,552</u>	<u>19,598,496</u>
	<u>43,151,639</u>	<u>45,945,063</u>
Single Family III		
October 1	355,000	310,000
December 1	175,000	-
April 1	<u>-</u>	<u>255,000</u>
	<u>530,000</u>	<u>565,000</u>
Multifamily	<u>1,540,000</u>	<u>3,000,000</u>
Total	<u>\$129,361,639</u>	<u>\$105,520,063</u>

All such Bonds were redeemed at par or 100% of their compounded value to date of redemption. Unamortized discounts and cost of issuance associated with the bonds redeemed were expensed at time of redemption and are reported as losses on redemption of \$1,237,631 and \$1,038,054 in 2004 and 2003, respectively.



**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**June 30, 2004 and 2003**

**NOTE 10. COMMITMENTS**

The Board has reserved and is in the process of purchasing Single Family Mortgages of approximately \$9,333,613 from the issuance of the 2004 Series A Bonds and \$28,433,449 from the issuance of the 2004 Series B bonds.

The Board has committed to purchase Single Family Mortgages as noted below:

HUD Section 184-Indian Housing	\$1,294,552
Glacier Affordable Housing Program	2,693,856
City of Billings	1,997,534
Neighborhood Housing Services MT Home Ownership Network	7,108,153
Neighborhood Housing Services MT Home Ownership Network (Subordinate Loan)	1,491,083
Habitat for Humanity	999,673
City of Terry	89,510
City of Lewistown	420,000
City of Missoula	1,670,340
County of Missoula	1,885,340
First Time Homebuyers Savings Account	1,729,980
USDA Rural Housing Development	1,071,810
Native American Housing Loan Guarantee	986,240
Dream Montana Project	673,903
District XI Human Resource Council	200,000
Lot Refinance	625,544
North Missoula Affordable Housing Project	6,171,816
Clark Fork Commons	2,430,700
Town of Bridger	235,600
City of Kalispell	513,946
Teachers Conventional Loans	1,000,000
GAP Financing Program	1,000,000
Disabled Affordable Accessible Homeownership Program	847,130
Total Single Family commitments	<u>\$37,136,710</u>

Other Commitments--Single Family I	
Reverse Annuity Mortgage Program	\$350,000

The Board has the following Multifamily commitments:

Financing Adjustment Factor Subsidy Set aside (restricted by agreement with HUD)	\$235,011
Total Multifamily Commitments	

The Board has committed Housing Trust Funds as noted below:

Reverse Annuity Mortgage Program	\$1,480,631
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These mortgage commitments will be funded through cash and investments.

During the ordinary course of business, the Board incurs expenses under various cancelable leases for rental of equipment and maintenance contracts.

**NOTE 11. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS**

The Board of Housing and its employees contribute to the Public Employees' Retirement System (PERS). PERS offers two types of retirement plans administered by the Montana Public Employees' Retirement Administration.

**Defined Benefit Retirement Plan:** The Defined Benefit Retirement Plan (DBRP) is a multiple-employer, cost-sharing plan that provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation. Vesting occurs once

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**June 30, 2004 and 2003**

**NOTE 11. EMPLOYEE BENEFIT PLANS – continued**

membership service totals five years. Benefits are established by state law and can only be amended by the legislature.

**Defined Contribution Retirement Plan:** The Defined Contribution Retirement Plan (DCRP), created by the 1999 legislature and available to all active PERS members effective July 1, 2002. This plan is a multiple-employer, cost-sharing plan that also provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on the balance in the member's account, which includes the total contributions made, the length of time the funds have remained in the plan, and the investment earnings less administrative costs.

The PERS issues publicly available annual reports that include financial statements and required supplemental information for the plans. Those reports may be obtained from the following:

Public Employees' Retirement Administration  
P.O. Box 200131  
100 North Park Suite 220  
Helena, MT 59620-0131  
406-444-3154

Contribution rates for the plans are required and determined by State law.

The contribution rates for 2004 expressed as a percentage of covered payroll are as follows:

<u>Employee</u>	<u>Employer</u>	<u>Total</u>
6.90%	6.90%	13.80%

The amounts contributed to the plans during the years ended June 30, 2002, 2003, and 2004 were equal to the required contribution each year. The amounts contributed by both the Board and by employees, as required by State law, were as follows:

Fiscal Year	2002 - \$35,328
Fiscal Year	2003 - \$40,152
Fiscal Year	2004 - \$42,603

**Deferred Compensation Plan:** The Board's permanent employees are eligible to participate in the State of Montana's deferred compensation plan. The compensation deferred is not available to employees until separation from State service, retirement, death, or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. The plan is governed by Internal Revenue Service Code (IRC) Section 457 and Title 19, Chapter 50, Montana Code Annotated (MCA). The Small Business Job Protection Act of 1996 resulted in changes to IRC Section 457 and Title 19, Chapter 50, MCA. Assets of the deferred compensation plan are required to be held in trust, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. For plans in existence as of August 20, 1996, compliance was required by January 1, 1999.

**NOTE 12. CONTINGENT ARBITRAGE REBATE LIABILITY PAYABLE TO U.S. TREASURY DEPARTMENT**

The Board has established an accrual for the contingent liability for estimated arbitrage payments due to the Treasury Department in accordance with the Internal Revenue Code. The amount of the rebate in general terms is the difference between the actual interest earned on investments and "allowable" interest as defined by Treasury Department Regulations. Ninety percent of the estimated rebate will be paid to the United States Treasury within 60 days of the end of every fifth bond year until the bonds are retired, at which time 100% of the remaining rebate amount is due.

There was \$417,244 in arbitrage rebate cash payments to the Treasury Department in fiscal year 2004. During fiscal year ended June 30, 2003, there was \$666,190 in arbitrage rebate cash payments to the Treasury Department. The liabilities are \$1,023,009 and \$1,136,728 as of June 30, 2004 and 2003, respectively.

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**June 30, 2004 and 2003**

**NOTE 13. SUBSEQUENT EVENTS**

On July 8, 2004, the board issued \$68,000,000 in bonds under the Single Family II Indenture.

**NOTE 14. REFUNDING AND DEFERRED BOND ISSUANCE COSTS**

On August 14, 2003, Series 2003B was issued in the amount of \$70,700,000. Of the proceeds, \$20,000,000 was used for a replacement refunding of a portion of the Series 1995 B-1 bonds on September 1, 2003.

Under GASB 23, deferred costs are required to be amortized over the shorter of the life of the refunded bonds or the life of the refunding bonds.

The following costs associated with the refunding were deferred and are being amortized under the GASB 23 guidelines:

**FY 2004 Refunding:**

Cost of Issuance related to the refunded bonds (95B)	\$172,457
Premium paid on the refunded bonds (95B)	<u>0</u>
Total deferred refunding costs	172,457
Less amortization FY 2004	<u>(5,226)</u>
Amount remaining to be amortized on FY 2004 issues	\$167,231

**Prior years' Refundings:**

Unamortized Deferred refunding costs from prior years' refunding	<u>\$1,333,104</u>
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<b>Total unamortized</b>	<b><u>\$1,500,335</u></b>
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The refunding of a portion of the 1995B bonds resulted in an economic gain of \$6,589,802 and a difference in cash flows of \$11,216,801.

**NOTE 15. RELATED PARTY TRANSACTIONS**

Employees, officers and stockholders of certain approved originator and servicing financial institutions of the Board also serve as directors of the Board of Housing.

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### **Other Supplemental Information**

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MONTANA BOARD OF HOUSING  
A COMPONENT UNIT OF THE STATE OF MONTANA  
COMBINING STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2004 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2003)

	Single Family Indenture I	Single Family Indenture II	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN ACCT	Combined Totals (Memorandum Only)	
							FY 2004	FY 2003
<b>ASSETS</b>								
Current Assets								
Cash and Cash Equivalents	\$ 1,548,942	\$ 2,981,004	\$ 4,529,946	\$ 1,013,438	\$ 1,631,034	\$ 89,713	\$ 7,264,131	\$ 7,756,487
Investments	1,488,820	41,691,855	43,180,675	3,159,603	-	-	46,340,278	32,975,198
Mortgage Loans Receivable	4,400,443	5,617,268	10,017,711	556,079	-	10,843	10,584,633	10,296,404
Interest Receivable	1,695,731	1,969,091	3,664,822	127,686	227,417	55,188	4,075,113	5,028,326
Due from Primary Government	99	99	198	-	-	875	1,073	2,634
Prepaid Expense	84,762	84,762	169,524	10,213	1,681	-	181,418	174,625
Total Current Assets	\$ 9,218,797	\$ 52,344,079	\$ 61,562,876	\$ 4,867,019	\$ 1,860,132	\$ 156,619	\$ 68,446,646	\$ 56,233,674
Noncurrent Assets								
Investments	\$ 42,217,108	\$ 51,164,229	\$ 93,381,337	\$ 753,172	\$ -	\$ -	\$ 94,134,509	\$ 114,774,824
Mortgage Loans Receivable	262,025,721	316,352,045	578,377,766	16,943,050	1,162,110	2,263,784	598,746,710	582,059,142
Deferred Bond Issuance Costs, Net	2,674,280	3,396,251	6,070,531	213,782	-	-	6,284,313	6,304,050
Capital Assets, Net	31,859	41,594	73,453	1,082	1,082	-	75,617	113,761
Total Noncurrent Assets	\$ 306,948,968	\$ 370,954,119	\$ 677,903,087	\$ 17,911,086	\$ 1,163,192	\$ 2,263,784	\$ 699,241,149	\$ 703,251,777
<b>TOTAL ASSETS</b>	<b>\$ 316,167,765</b>	<b>\$ 423,298,198</b>	<b>\$ 739,465,963</b>	<b>\$ 22,778,105</b>	<b>\$ 3,023,324</b>	<b>\$ 2,420,403</b>	<b>\$ 767,687,795</b>	<b>\$ 759,485,451</b>
<b>LIABILITIES</b>								
Current Liabilities								
Accounts Payable	\$ 180,627	\$ 139,730	\$ 320,357	\$ 10,977	\$ 4,188	\$ -	\$ 335,522	\$ 476,111
Due to Primary Government	9,843	9,843	19,686	4,199	2,892	-	26,777	27,733
Due to Other Component Unit	2,437	2,436	4,873	-	-	-	4,873	3,648
Property Held in Trust	-	681,755	681,755	1,250	-	-	683,005	709,505
Accrued Interest - Bonds Payable	1,282,743	1,372,567	2,655,310	347,970	-	-	3,003,280	3,422,051
Bonds Payable, Net	4,340,000	2,946,560	7,286,560	495,000	-	-	7,781,560	9,168,966
Arbitrage Rebate Payable to U.S.	-	-	47,955	-	-	-	47,955	463,413
Treasury Department	47,955	-	41,170	7,727	4,805	-	53,702	57,263
Accrued Compensated Absences	20,585	20,585	41,170	-	-	-	-	-
Total Current Liabilities	\$ 5,884,190	\$ 5,173,476	\$ 11,057,666	\$ 867,123	\$ 11,885	\$ -	\$ 11,936,674	\$ 14,328,690
Noncurrent Liabilities								
Bonds Payable, Net	\$ 272,755,000	\$ 338,582,939	\$ 611,337,939	\$ 13,335,620	\$ -	\$ -	\$ 624,673,559	\$ 616,381,498
Deferred Refunding Costs	(941,719)	(598,616)	(1,500,335)	-	-	-	(1,500,335)	(1,461,389)
Arbitrage Rebate Payable to U.S.	-	-	-	-	-	-	-	-
Treasury Department	499,246	475,808	975,054	-	-	-	975,054	673,315
Accrued Compensated Absences	18,714	18,714	37,428	7,024	4,368	-	48,820	33,498
Total Noncurrent Liabilities	\$ 272,331,241	\$ 338,518,845	\$ 610,850,086	\$ 13,342,644	\$ 4,368	\$ -	\$ 624,197,098	\$ 615,626,922
<b>TOTAL LIABILITIES</b>	<b>\$ 278,215,431</b>	<b>\$ 343,692,321</b>	<b>\$ 621,907,752</b>	<b>\$ 14,209,767</b>	<b>\$ 16,253</b>	<b>\$ -</b>	<b>\$ 636,133,772</b>	<b>\$ 629,955,612</b>
<b>NET ASSETS</b>								
Invested in Capital Assets, Net	\$ 31,859	\$ 41,594	\$ 73,453	\$ 1,082	\$ 1,082	\$ -	\$ 75,617	\$ 113,761
Restricted for Bondholders:								
Unrealized (losses) gains on investments	-	1,658,382	1,658,382	(83,587)	-	-	1,574,795	3,805,542
Single Family Programs	26,985,326	51,354,340	78,339,666	-	1,525,358	-	79,865,024	91,857,673
Various Recycled Mortgage Programs	10,585,149	26,551,561	37,136,710	-	-	-	37,136,710	21,898,843
Multifamily Programs	-	-	-	8,415,832	-	-	8,415,832	7,985,248
Multifamily Project Commitments	-	-	-	235,011	-	-	235,011	244,644
Reverse Annuity Mortgage Program	350,000	-	350,000	-	1,480,631	-	1,830,631	1,500,125
Restricted for Affordable Revolving Loan Program	-	-	-	-	-	2,420,403	2,420,403	1,759,005
Revolving Loan Program Commitments	-	-	-	-	-	-	-	365,000
<b>TOTAL NET ASSETS</b>	<b>\$ 37,952,334</b>	<b>\$ 79,605,877</b>	<b>\$ 117,558,211</b>	<b>\$ 8,568,338</b>	<b>\$ 3,007,071</b>	<b>\$ 2,420,403</b>	<b>\$ 131,554,023</b>	<b>\$ 129,529,839</b>

MONTANA BOARD OF HOUSING  
A COMPONENT UNIT OF THE STATE OF MONTANA  
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2004 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2003)

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture III	Single Family Drawdown	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN ACCT	Combined Totals (Memorandum Only)	
									FY 2004	FY 2003
<b>OPERATING REVENUES</b>										
Interest Income - Mortgage Loans	\$ 18,807,358	\$ 15,972,515	\$ -	\$ -	\$ 34,779,873	\$ 1,241,791	\$ 54,280	\$ 27,104	\$ 36,103,048	\$ 40,852,401
Interest Income - Investments	3,894,605	4,375,637	-	-	8,270,242	130,487	13,867	540	8,415,136	9,655,738
Fee Income	3,393	13,527	-	-	16,920	-	197,792	-	214,712	229,872
Federal Financial Assistance	-	-	-	-	-	238,508	-	12,943	251,451	242,171
Net Increase (Decrease) in Fair Value of Investments	-	(2,203,826)	-	-	(2,203,826)	(26,922)	-	-	(2,230,748)	2,300,207
Grants and Contributions	1,000	1,000	-	-	2,000	-	5,400	258,225	265,625	42,733
Other Income	48	76	-	-	124	189	-	-	313	9,896
Total Operating Revenues	\$ 22,705,404	\$ 18,155,929	\$ -	\$ -	\$ 40,865,333	\$ 1,584,053	\$ 271,339	\$ 298,812	\$ 43,019,537	\$ 53,333,018
<b>OPERATING EXPENSES</b>										
Interest on Bonds	\$ 18,417,454	\$ 15,502,880	\$ -	\$ -	\$ 33,920,334	\$ 927,813	\$ -	\$ -	\$ 34,848,147	\$ 39,405,348
Service Fees	1,113,643	1,022,936	-	-	2,136,579	20,493	-	-	2,157,072	2,301,386
Contracted Services	298,850	279,716	-	-	578,566	28,610	7,327	2,414	616,917	551,173
Amortization of Bond Issuance Costs	267,846	224,193	-	-	492,039	16,240	-	-	508,279	482,583
General and Administrative	502,942	503,918	-	-	1,006,860	181,564	-	-	1,323,782	1,301,403
Arbitrage Rebate Expense	124,295	179,231	-	-	303,526	-	135,358	-	303,526	299,970
Loss on Redemption	822,195	399,819	-	-	1,222,014	15,616	-	-	1,237,630	1,038,054
Total Operating Expenses	\$ 21,547,225	\$ 18,112,693	\$ -	\$ -	\$ 39,659,918	\$ 1,190,336	\$ 142,685	\$ 2,414	\$ 40,995,353	\$ 45,359,919
Operating Income (Loss) Before Transfers	1,159,179	46,236	-	-	1,205,415	393,717	128,654	296,398	2,024,184	7,973,099
Operating Transfers In/Out	(73,226)	924,620	(849,767)	(1,627)	-	-	-	-	-	-
Increase (Decrease) in Net Assets	1,085,953	970,856	(849,767)	(1,627)	1,205,415	393,717	128,654	296,398	2,024,184	7,973,099
Net Assets, Beginning of Year	36,866,381	78,635,021	849,767	1,627	116,352,796	8,174,821	2,878,417	2,124,005	129,529,839	121,556,740
Net Assets, End of Year	\$ 37,952,334	\$ 79,605,877	\$ -	\$ -	\$ 117,558,211	\$ 8,568,538	\$ 3,007,071	\$ 2,420,403	\$ 131,554,023	\$ 129,529,839



MONTANA BOARD OF HOUSING  
A COMPONENT UNIT OF THE STATE OF MONTANA  
COMBINING STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2004 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2003)

	Single Family Indenture I	Single Family Indenture II	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN ACCT	Combined Totals (Memorandum Only)	
							FY 2004	FY 2003
<b>CASH FLOWS FROM OPERATING ACTIVITY</b>								
Receipts for Sales and Services	\$ 101,150,137	\$ 70,144,119	\$ 171,294,256	\$ 3,280,561	\$ 197,792	\$ -	\$ 197,792	\$ 229,872
Collections on Loans and Interest on Loans	(5,754,236)	(148,209,009)	(153,963,245)	-	254,180	33,552	174,862,549	185,660,318
Cash Payments for Loans	-	-	-	238,508	(321,222)	(623,225)	(154,907,592)	(85,189,678)
Federal Financial Assistance Receipts	-	-	-	-	-	12,943	251,451	242,171
Receipts for Grants and Contributions	1,000	1,000	2,000	-	-	258,225	260,225	42,733
Payments to Suppliers for Goods and Services	(1,622,199)	(1,551,740)	(3,173,939)	(144,326)	(65,742)	(3,289)	(3,387,296)	(3,374,901)
Payments to Employees	(317,583)	(317,583)	(635,166)	(90,319)	(80,140)	-	(805,625)	(756,678)
Other Operating Revenues	1,498	1,526	3,024	189	5,400	-	8,613	9,896
Net Cash Provided (Used) by Operating Activities	\$ 93,458,617	\$ (79,931,687)	\$ 13,526,930	\$ 3,284,613	\$ (9,732)	\$ (321,794)	\$ 16,480,017	\$ 96,863,733
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>								
Payment of Principal and Interest on Bonds and Notes	\$ (107,137,945)	\$ (83,023,821)	\$ (190,161,766)	\$ (3,029,339)	\$ -	\$ -	\$ (193,191,105)	\$ (249,731,928)
Proceeds from Issuance of Bonds and Notes	-	161,800,000	161,800,000	-	-	-	161,800,000	144,015,500
Payment of Bond Issuance Costs	-	(1,765,118)	(1,765,118)	-	-	-	(1,765,118)	(1,200,881)
Premium Paid on Refunding Bonds	-	3,028,840	3,028,840	-	-	-	3,028,840	(399,700)
Good Faith Deposit being Held	-	(27,000)	(27,000)	-	-	-	(27,000)	707,000
Net Cash Provided (Used) by Noncapital Financing Activities	\$ (107,137,945)	\$ 80,012,901	\$ (27,125,044)	\$ (3,029,339)	\$ -	\$ -	\$ (30,154,383)	\$ (106,610,009)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>								
Purchase of Investments	\$ (259,305,325)	\$ (1,023,611,239)	\$ (1,282,916,564)	\$ (8,274,000)	\$ -	\$ -	\$ (1,291,190,564)	\$ (649,003,025)
Proceeds from Sales or Maturities of Investments	287,581,083	1,019,932,450	1,287,513,533	8,721,520	-	-	1,296,235,053	652,541,427
Interest on Investments	3,913,349	4,485,507	8,398,856	141,502	13,867	540	8,554,765	9,692,205
Arbitrage Rebate Tax	-	(417,244)	(417,244)	-	-	-	(417,244)	(666,190)
Net Cash Provided (Used) by Investing Activities	\$ 12,189,107	\$ 389,474	\$ 12,578,581	\$ 589,022	\$ 13,867	\$ 540	\$ 13,182,010	\$ 12,564,417
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (1,490,221)	\$ 470,688	\$ (1,019,533)	\$ 844,296	\$ 4,135	\$ (321,254)	\$ (492,356)	\$ 2,818,141
Cash and Cash Equivalents, beginning bal.	\$ 3,039,163	\$ 2,510,316	\$ 5,549,479	\$ 169,142	\$ 1,628,899	\$ 410,967	\$ 7,756,487	\$ 4,938,346
Cash and Cash Equivalents, ending bal.	\$ 1,548,942	\$ 2,981,004	\$ 4,529,946	\$ 1,013,438	\$ 1,631,034	\$ 89,713	\$ 7,264,131	\$ 7,756,487

MONTANA BOARD OF HOUSING  
A COMPONENT UNIT OF THE STATE OF MONTANA  
COMBINING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2004 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2003)

	Single Family Indenture I	Single Family Indenture II	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN ACCT	Combined Totals (Memorandum Only)	
							FY 2004	FY 2003
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>								
Operating Income	\$ 1,159,179	\$ 46,236	\$ 1,205,415	\$ 393,717	\$ 128,654	\$ 296,398	\$ 2,024,184	\$ 7,973,099
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:</b>								
Depreciation	17,345	20,169	37,514	314	314	-	38,142	40,123
Amortization	1,090,041	473,396	1,563,437	31,856	-	-	1,595,293	1,504,183
Interest Expense	18,417,454	15,653,496	34,070,950	927,813	-	-	34,998,763	39,401,802
Interest on Investments	(3,894,604)	(4,375,637)	(8,270,241)	(130,487)	(13,867)	(540)	(8,415,135)	(9,655,738)
Arbitrage Rebate Tax	124,295	179,231	303,526	-	-	-	303,526	299,970
(Incr) Decr in Fair Value of Investments	-	2,203,826	2,203,826	26,922	-	-	2,230,748	(2,300,207)
Change in Assets and Liabilities:								
Decr (Incr) in Mortgage Loans Receivable	76,094,139	(91,371,249)	(15,277,110)	2,072,552	(117,952)	(603,947)	(13,926,457)	59,611,933
Decr (Incr) in Other Assets	789,771	(2,288)	787,483	33,970	(1,765)	(13,705)	805,983	196,312
Incr (Decr) in Accounts Payable	(52,781)	(78,860)	(131,641)	478	(6,289)	-	(137,452)	(27,980)
Incr (Decr) in Deferred Reservation & Disc. Fees	(290,864)	(2,684,649)	(2,975,513)	(73,826)	-	-	(3,049,339)	(189,209)
Incr (Decr) in Compensated Absences Payable	4,642	4,642	9,284	1,304	1,173	-	11,761	9,445
Net Cash Provided by (Used for) Operating Activities	\$ 93,458,617	\$ (79,931,687)	\$ 13,526,930	\$ 3,284,613	\$ (9,732)	\$ (321,794)	\$ 16,480,017	\$ 96,863,733

# MONTANA

**Department of Commerce**

## MONTANA BOARD OF HOUSING

P.O. Box 200528 ★ Helena, Montana 59620-0528 ★ <http://commerce.state.mt.us>  
Phone: 406-841-2840 ★ Fax: 406-841-2841 ★ TDD: 406-841-2702

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**LEGISLATIVE AUDIT DIV.**

November 23, 2004

Scott A. Seacat  
Legislative Auditor  
Room 160, State Capitol  
PO Box 201705  
Helena MT 59620-1705

Dear Mr. Seacat:

We have received and reviewed the financial-compliance audit of the Montana Board of Housing for the two fiscal years ended June 30, 2004. We are pleased with the unqualified opinion. We appreciate the professionalism and courtesy with which the audit was conducted. We realize our audit is complicated due to the unique nature of our operation, and appreciate you and your staff's willingness to do all of the "special" work that goes along with our operation.

I am looking forward to speaking with the Audit Committee regarding the operations of the Board of Housing.

Sincerely,



Bruce Brensdal  
Executive Director